United States Government Accountability Office

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Report to Congressional Committees

July 2004

MILITARY OPERATIONS

Fiscal Year 2004 Costs for the Global War on Terrorism Will Exceed Supplemental, Requiring DOD to Shift Funds from Other Uses

This report was originally issued July 21, 2004. On July 23, 2004, the report on GAO's Web site was revised to show the correct percentages for Training, Command, Control, Communication, Computers, and Intelligence, and Other Supplies and Equipment in figure 4 on page 19. Also, dollar amounts were revised to reflect two decimal places for all categories. A note was added to figure 4 stating that percentage total does not add due to rounding.

GAO-04-915

July 2004

MILITARY OPERATIONS

Fiscal Year 2004 Costs for the Global War on Terrorism Will Exceed Supplemental, Requiring DOD to Shift Funds from Other Uses

GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-04-915, a report to congressional committees

Why GAO Did This Study

To support the Global War on Terrorism in fiscal year 2004, the Congress appropriated $65 billion to the Department of Defense (DOD) in an emergency supplemental appropriations act. To assist the Congress in its oversight role, GAO reviewed (1) the adequacy of current funding for fiscal year 2004 war-related activities and (2) actions DOD is undertaking to cover anticipated shortfalls, if any. Based on the body of work GAO has done on the cost of contingency operations, GAO is also making observations on efforts to require greater accountability to the Congress on the use of funds appropriated to DOD for contingency operations.

What GAO Recommends

GAO recommends that the Secretary of Defense revise DOD cost reporting guidance so that large amounts of obligations are not shown in "miscellaneous" categories. To better assess the adequacy of previously provided funding, the Congress may wish to direct DOD to report on the adequacy of funding for the war on terrorism. DOD did not provide comments by the date requested. GAO discussed its analysis and proposed recommendation with DOD and service representatives, who agreed that there needed to be greater detail in the miscellaneous cost reporting categories. The representatives did not object to providing the Congress with information on the adequacy of funding.

www.gao.gov/cgi-bin/getrpt?GAO-04-915.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Neal Curtin at (757) 552-8100 or curtinn@gao.gov.

What GAO Found

GAO's analysis of reported obligations for the first seven months of fiscal year 2004 through April 2004 and the military services' forecasts as of June 2004 of their likely costs for the Global War on Terrorism for operation and maintenance and military personnel through the end of fiscal year 2004 suggests that anticipated costs will exceed the supplemental funding provided for the war by about $12.3 billion for the current fiscal year. The following table shows the shortfall and surplus for each service.

Service Forecasts of GWOT Funding Shortfalls and Surpluses in Operation and Maintenance and Military Personnel Appropriations Accounts as of June 2004

Dollars in billions

Service	Operation and maintenance	Military personnel	Net total by service
Army	($10.2)	$.8	**($9.4)**
Air Force	(1.5)	.1	**(1.4)**
Navy	(.9)	(.1)	**(1.0)**
Marine Corps	(.4)	(.1)	**(.5)**
Total	**($13.0)**	**$.7**	**($12.3)**

Source: Developed by GAO from service data.

Note: Parentheses indicate shortfall. GAO did not audit the data.

DOD and the services are taking a variety of actions to cover anticipated shortfalls in their war-related funding. These actions include taking steps to reduce costs, transferring funds among appropriations accounts, and deferring some planned activities to use those funds to support the war. Also, DOD plans to ask the Congress for additional transfer authority, which would give it sufficient authority to move funds from one service to another and get funds to the operation and maintenance accounts that have the greatest shortfalls. The deferral of activities planned for fiscal year 2004 adds to the requirements that will need to be funded in fiscal year 2005 and potentially later years and could result in a "bow wave" effect in future fiscal years.

GAO's past work has shown that current cost reporting includes large amounts of funds that have been reported as obligated in miscellaneous categories and thus provide little insight on how those funds have been spent. This is likely to result in reduced transparency and accountability to the Congress and the American people. Recent congressional actions have signaled the Congress' intent to require greater accountability regarding the use of GWOT funds. For example, in action on the President's $25 billion request for an Iraqi Freedom Fund Contingent Emergency Reserve in fiscal year 2005, the House Committee on Appropriations included provisions in its bill for cost reporting related to the use of these funds. But additional actions are necessary.

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Abbreviations

DOD	Department of Defense
GWOT	Global War on Terrorism
LOGCAP	Logistics Civil Augmentation Program

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Congressional Committees

Following the terrorist attacks of September 11, 2001, the United States began military operations to combat terrorism both in the United States and overseas. Military operations to defend the United States from terrorist attacks are known as Operation Noble Eagle. Overseas operations to combat terrorism are known as Operation Enduring Freedom and have taken place principally in Afghanistan. In March 2003, the United States began Operation Iraqi Freedom to change the government in Iraq. Together, these three operations are known as the Global War on Terrorism (GWOT). To support GWOT operations in fiscal year 2004, the Congress appropriated $65 billion to the Department of Defense (DOD) in an emergency supplemental appropriation.[1] The administration had requested that amount to cover about $51 billion for ongoing military operations in Iraq, over $10 billion for U.S. forces in Afghanistan, and about $3.6 billion for homeland defense and support to allies.

To assist the Congress in its oversight role, we reviewed (1) the adequacy of current funding for fiscal year 2004 GWOT-related activities and (2) actions DOD is undertaking to cover any anticipated shortfalls. Based on the body of work we have done on the cost of contingency operations, we are also making observations on efforts to require greater accountability to the Congress on the use of supplemental funds appropriated to DOD for contingency operations. We provided a draft of this report to your offices for deliberations on fiscal year 2005 defense bills.

To accomplish this review, we obtained the most recently available DOD data on the services' reported obligations of funds in fiscal year 2004 in support of GWOT and compared the data to available funding detailed in appropriations legislation. Obligations are incurred through actions such as orders placed, contracts awarded, services received, or similar transactions made by federal agencies during a given period that will

[1] Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, P.L. 108-106 (Nov. 6, 2003).

require payments during the same or a future period.[2] DOD's financial systems capture the obligation of funds. To identify DOD's fiscal year 2004 GWOT-reported obligations, we used DOD's *Consolidated Department of Defense Terrorist Response Cost Reports*, which report the monthly and cumulative GWOT obligations, and analyzed the data. Although we did not validate the financial systems or data that the Defense Finance and Accounting Service uses to produce these consolidated cost reports, we did discuss the data presented in these reports with DOD and service representatives and agreed that for the limited scope of this review, the consolidated reports provided the best available data. We also did not verify whether reported obligations were actually in support of GWOT. However, we are beginning a separate review of the obligations accumulated through the various sources of information used by the services, including the method by which the Defense Finance and Accounting Service acquires and consolidates the data into the cost report and whether the reported obligations support the war.

We interviewed DOD and service representatives responsible for preparing budgets and estimating costs to obtain their forecasts of fiscal year 2004 funding needs as contained in their midyear budget reviews that they presented to the Office of the Under Secretary of Defense (Comptroller) and subsequent updates as of June 2004. We also interviewed resource management representatives from some of the major commands involved in Operation Iraqi Freedom. We focused our work on the obligation of funds appropriated for operation and maintenance and military personnel, for both active and reserve forces, because they represented the large majority of funds obligated in fiscal year 2004 through April 2004. In developing observations on how to improve accountability over contingency funds, we drew upon the body of work we have done over the past decade on the cost of contingency operations. The Congress was in the final stages of completing action on the fiscal year 2005 defense appropriations bill as we were finalizing our report. A detailed discussion of our scope and methodology is contained in appendix I.

We performed our work from January through June 2004 in accordance with generally accepted government auditing standards.

[2] Department of Defense Financial Management Regulations, 7000.14-R, vol. 1, Definitions, page xvii.

Results in Brief

Our analysis of reported obligations for the first half of fiscal year 2004 and the military services' forecasts as of June 2004 of their likely costs for GWOT for operation and maintenance and military personnel through the end of fiscal year 2004 suggests that anticipated costs will exceed the supplemental funding provided for GWOT by a net of about $12.3 billion as of June 2004. Each of the services forecasts a shortfall compared to their GWOT operation and maintenance appropriations. Two of the services—the Army and the Air Force—forecast a surplus in their military personnel GWOT funding and the Navy and the Marine Corps forecast a shortfall. Our comparison of the percentage of fiscal year 2004 GWOT operation and maintenance funds obligated by the services through the first seven months of the fiscal year (i.e., October 1, 2003, through April 2004, the latest month for which obligation data are available for all the services) showed that the military services had obligated more than 60 percent of their available appropriations. For example, the percentage of GWOT operation and maintenance funds that were obligated as of April 30, 2004, ranged from a low of nearly 61 percent for the Air Force to a high of over 77 percent for the Marine Corps. The military services forecast that their GWOT operational needs will exceed their supplemental GWOT operation and maintenance funding, with the Army forecasting a $10.2 billion shortfall and the Air Force forecasting a $1.5 billion shortfall.

DOD and the services are taking a variety of actions to cover anticipated shortfalls in their GWOT accounts. These actions include taking steps to reduce costs, transferring funds among appropriations accounts, and deferring planned peacetime activities to use those funds to support GWOT. The Army has increased management's review of planned activities to ensure that they are necessary, is planning to defer activities such as refurbishment of equipment used in Operation Iraqi Freedom to fiscal year 2005 and beyond to reduce fiscal year 2004 costs, is seeking transfers of funds from the other services, and has received almost $1 billion in surpluses from the transportation working capital fund. Both the Air Force and the Navy plan to decrease peacetime flying hours in the fourth quarter of this fiscal year, delay sending equipment into depots for repair, and defer facility sustainment and restoration modernization projects among other actions within their overall operation and maintenance accounts to make funds available for GWOT needs. The Marine Corps plans to seek the transfer of funds from Navy investment accounts to cover its shortfall. However, there are statutory dollar limits on the amount of funds DOD can transfer and, according to a DOD representative, as of June 18, 2004, DOD had used up most of its transfer authority. According to this representative, DOD plans to ask the Congress

for additional transfer authority, which would give DOD sufficient authority to move funds from one military service to another and get funds to the operation and maintenance accounts that have the greatest shortfalls. Finally, the deferral of activities planned for fiscal year 2004 adds to the requirements that will need to be funded in fiscal year 2005 and potentially later years and could result in a "bow wave" effect in future fiscal years.

Our past work has shown that current cost reporting includes large amounts of funds that have been reported as obligated in miscellaneous categories and thus provide little insight on how those funds have been spent. For example, in our report on fiscal year 2003 funding, we pointed out that almost 35 percent of obligations reported in the operation and maintenance account were in "other supplies and equipment" and "other services and miscellaneous contracts." This may result in reduced transparency and accountability to the Congress and the American people. Our work has also discussed the difficulty of accurately budgeting for annual funding needs and the resulting existence of both funding shortfalls and surpluses, which at times have been spent on noncontingency related activities. Recent congressional committee actions have signaled the Congress' intent to require greater accountability regarding the use of GWOT funds. For example, in action on the President's $25 billion request for the Iraqi Freedom Fund Contingent Emergency Reserve in fiscal year 2005, the House Committee on Appropriations included provisions in its bill requiring DOD to provide more accountability related to the use of these funds, but additional actions are necessary.

To improve accountability over the use of GWOT funds, we are recommending that the department provide more detail in its cost reporting on contingency operations. We also raise a matter for the Congress' consideration regarding additional DOD reporting the Congress could require to keep its members better informed on the adequacy of funding.

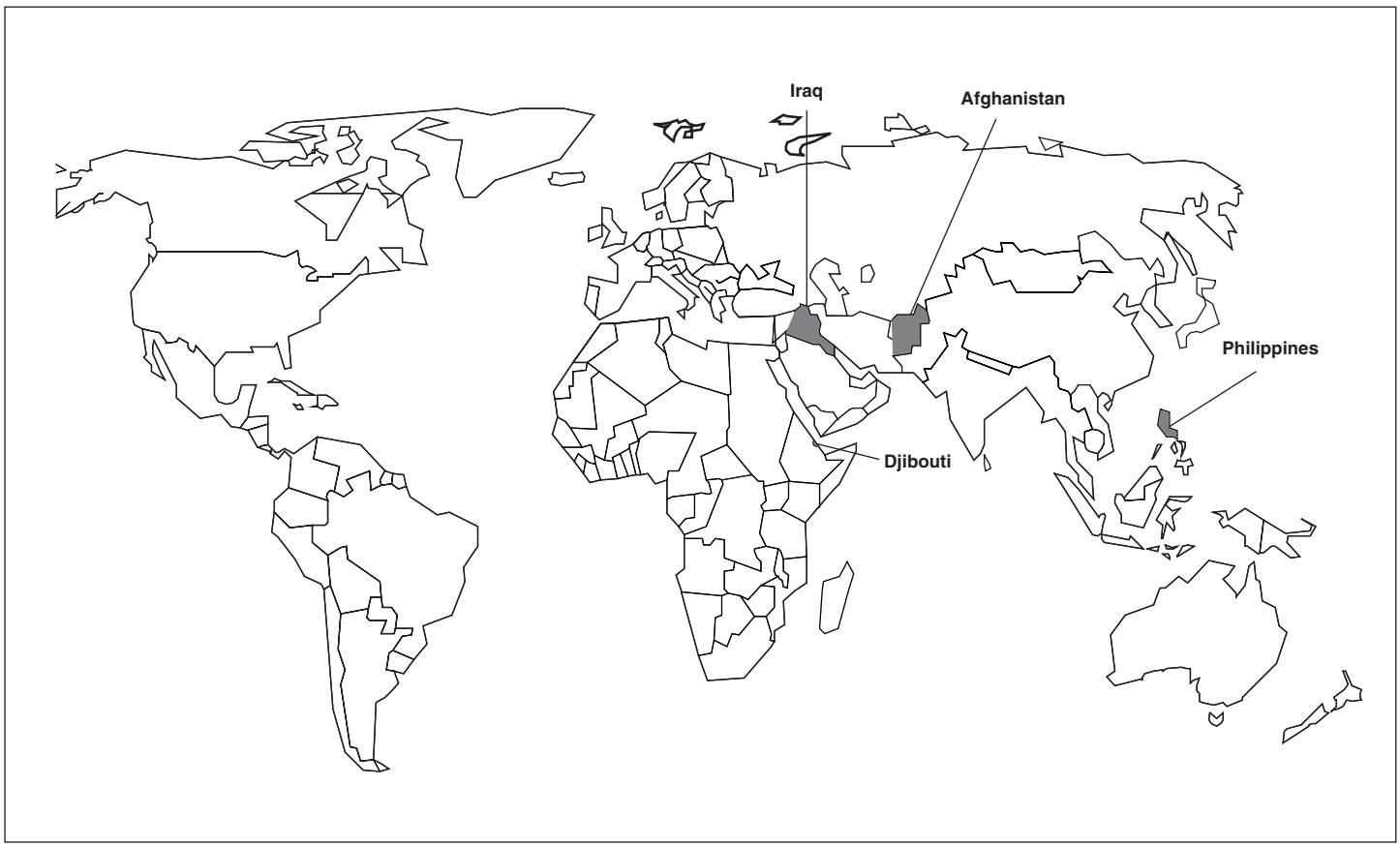
DOD did not provide comments by the date requested. However, we did discuss our analysis and proposed recommendation with DOD and service representatives, who agreed that there needed to be greater detail in the miscellaneous cost reporting categories. The representatives did not object to providing the Congress with information on the adequacy of GWOT funding. DOD provided technical comments and we have incorporated them as appropriate.

Background

Since the terrorist attacks of September 11, 2001, the United States has undertaken military operations worldwide to fight terrorism as part of GWOT. To pay for the incremental costs[3] of GWOT, the Congress has provided over $165 billion in appropriations for military operations through fiscal year 2004. This amount includes funds for operations in Afghanistan and more recently Iraq, homeland security, and other global counterterrorism military and intelligence operations. Figure 1 shows the location of DOD's major operations in support of GWOT during fiscal year 2004.

[3] The term "incremental costs" means those directly attributable costs that would not have been incurred if it were not for the operation. Sections 230406 and 230902 of Department of Defense Financial Management Regulations 7000.14-R, Volume 12, Chapter 23, Contingency Operations (Feb. 2001) provide additional information on incremental costs.

Figure 1: Location of DOD's Fiscal Year 2004 Contingency Operations



Source: GAO.

Most of the costs associated with GWOT fall into two accounts—operation and maintenance and military personnel. Operation and maintenance account funds obligated in support of GWOT are used for a variety of purposes, including transportation of personnel, goods, and equipment; unit operating support costs; and intelligence, communications, and logistics support. Military personnel funds obligated in support of GWOT cover the pay and allowances of mobilized reservists as well as special payments or allowances for all qualifying military personnel, both active and reserve, such as Imminent Danger Pay and Family Separation Allowance.

Fiscal Year 2004 GWOT Costs Are Exceeding Supplemental Funding

Our analysis of the military services' reported obligations for the first seven months of fiscal year 2004 and the services' forecasts as of June 2004 of full fiscal year costs suggests the services' combined operation and maintenance costs could exceed supplemental GWOT funding by about $13 billion. At the same time, the services' forecasts suggest the Army and the Air Force will have some surplus military personnel funds while the Navy and the Marine Corps will have a small shortfall. Using the surplus military personnel funds to offset some of the operation and maintenance shortfalls could result in a net shortfall of about $12.3 billion. Table 1 shows the services' forecasts.

Table 1: Service Forecasts of GWOT Funding Shortfalls and Surpluses in Operation and Maintenance and Military Personnel Appropriations Accounts as of June 2004

Dollars in billions

Service	Operation and maintenance	Military personnel	Net total by service
Army	($10.2)	$.8	**($9.4)**
Air Force	(1.5)	.1	**(1.4)**
Navy	(.9)	(.1)	**(1.0)**
Marine Corps	(.4)	(.1)	**(.5)**
Total	**($13.0)**	**$.7**	**($12.3)**

Source: Developed by GAO from service data.

Note: Shortfalls in parentheses. We did not audit the data used.

Our analysis suggests that the services will require additional funding to satisfy operation and maintenance expenses and in some cases military personnel expenses. The services, in concert with the Office of the Under Secretary of Defense (Comptroller), plan to take a variety of actions to cover forecasted shortfalls.

Fiscal Year 2004 Funds Appropriated for the Global War on Terrorism

To support GWOT in fiscal year 2004, the Congress appropriated $65 billion to DOD in an emergency supplemental appropriation.[4] Of this $65 billion, about $63 billion was appropriated directly to the services' and other defense agencies' appropriations accounts and about $2 billion

[4] P.L. 108-106 (Nov. 6, 2003).

to a transfer fund called the Iraqi Freedom Fund.[5] Of the $63 billion, $5.3 billion was designated for classified programs, which we did not review, $3.07 billion was for procurement, $500 million was for military construction, $624 million was for the working capital funds, and $672 million was for other appropriations. Table 2 shows the operation and maintenance and the military personnel appropriations provided to the services and DOD-wide agencies for GWOT, exclusive of the amounts designated for classified programs.[6]

Table 2: Operation and Maintenance and Military Personnel Funds Appropriated for DOD during Fiscal Year 2004 for the Global War on Terrorism

Dollars in billions

	Army	Navy	Air Force	Marine Corps	DOD-wide agencies	Total
Operation and maintenance	$24.095	$1.866	$5.809	$1.373	$3.884	**$37.027**
Military personnel	12.859	.816	3.385	.910	0	**17.970**
Total	**$36.954**	**$2.682**	**$9.194**	**$2.283**	**$3.884**	**$54.997**

Source: P.L. 108-106.

Note: The dollar figures cited above include appropriations received by both the active and the reserve components for each service. Data include transfers from the Iraqi Freedom Fund as of April 2004--$180 million and $142 million, respectively, to the Army and Marine Corps operation and maintenance accounts and $157 million to the Marine Corps' military personnel account.

We recognize that estimating the costs of ongoing military operations is difficult because operational requirements can differ substantially from what was assumed in developing budget estimates. For example, according to Office of the Under Secretary of Defense (Comptroller) representatives, in developing the President's fiscal year 2004 GWOT budget request, DOD assumed, among other things, that the number of military personnel would decline from a wartime high of 130,000 to 99,000 by the end of fiscal year 2004, that it would be able to make greater use of sealift as opposed to more expensive airlift, and that military units replacing those involved in the invasion of Iraq would have fewer armored vehicles than the units they replaced. Conditions in Iraq have prevented

[5] The Iraqi Freedom Fund is a special account providing funds for additional expenses for ongoing military operations in Iraq and those operations authorized by P.L. 107-40 (Sept. 18, 2001), Authorization for Use of Military Force, and other operations and related activities in support of the Global War on Terrorism.

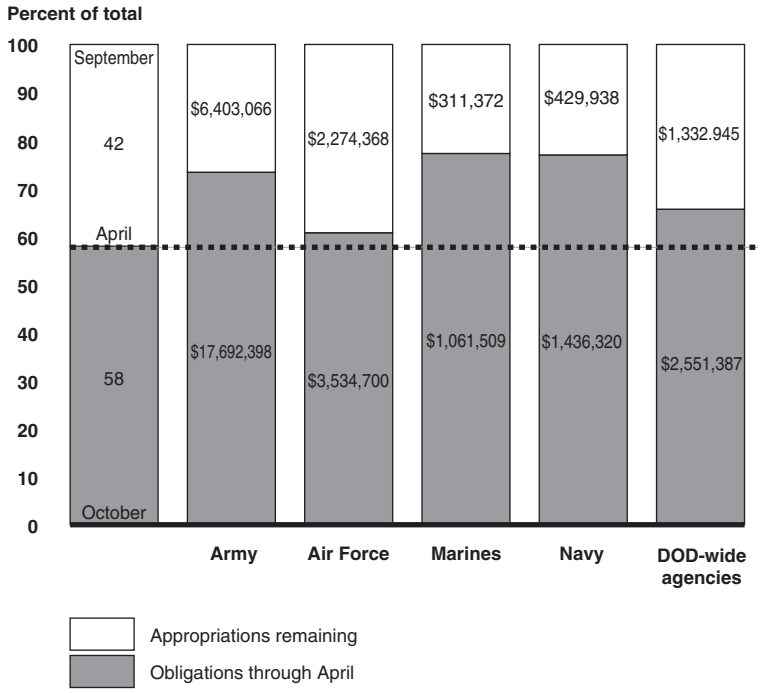
[6] These 16 DOD-wide agencies include the Defense Logistics Agency and the Special Operations Command.

much of this from happening, and costs have not decreased as anticipated. This includes having higher numbers of troops in Iraq, with DOD stating that it plans to keep troop levels at 138,000 for the foreseeable future.

Funding for GWOT Operation and Maintenance in Fiscal Year 2004 Is Not Likely to Be Sufficient

Our analysis of reported obligations for the first seven months of fiscal year 2004 and the military services' forecasts as of June 2004 of their likely costs for GWOT through the end of fiscal year 2004 suggest that anticipated costs will exceed the supplemental funding provided for GWOT. Our comparison of the percentage of fiscal year 2004 GWOT operation and maintenance funds obligated by the military services for the first seven months of the fiscal year (i.e., October 1, 2003, through April 2004, the latest month for which obligation data are available for all the services) showed that all of the military services had obligated more than 60 percent of their available appropriations, including any funds transferred from the Iraqi Freedom Fund. As shown in figure 2, the percentage of available operation and maintenance funds that were obligated as of April 30, 2004, ranged from a low of nearly 61 percent for the Air Force to a high of over 77 percent for the Marine Corps. Therefore, we believe that if funds continue to be obligated at the current rate or higher, operation and maintenance reported obligations made in fiscal year 2004 will be higher than the funds available for obligation in fiscal year 2004.

Figure 2: Reported Obligations of GWOT Operation and Maintenance Funds through April 2004



Source: GAO analysis of DOD data.

Note: Total reported obligations include obligations from both the active and the reserve components. We did not audit the data.

Each of the military services completed a midyear budget review in May-June 2004 for the Office of the Secretary of Defense, including a forecast of their requirements for GWOT and, in some cases, has updated those forecasts. Each service concluded it did not have sufficient GWOT funding for GWOT operation and maintenance, while two of the services—the Navy and the Marine Corps—forecasted a shortfall in GWOT military personnel funds (see next section). A summary of each service's review follows.

- The Army forecasts a funding shortfall of about $10.2 billion. The shortfall includes $5.3 billion for support to deployed Army forces; $3.4 billion for a variety of activities, including $2 billion for refurbishing equipment used in Operation Iraqi Freedom and $753 million in contractor logistics support; $800 million for equipment maintenance; and $650 million for contract guards and garrison support units in the United States. The two largest components of the shortfall in support for deployed forces are the

Logistics Civil Augmentation Program (LOGCAP) contract that provides a wide array of support services such as feeding and housing soldiers and the costs, such as those for spare parts, associated with the higher operating tempo of U.S. forces. LOGCAP costs have grown significantly as contractors replaced soldiers providing complex support functions. Higher than initially planned troop levels in Iraq as of spring 2004 (130,000 instead of 99,000) and an increase in troop levels in Afghanistan (from about 14,000 to about 21,000) have increased all aspects of troop support. Additional factors driving costs are the decision to change the force mix of units serving in Iraq from one-third armor, two-thirds wheeled vehicles to one-half armor, one-half wheeled vehicles, which will lead to higher operational tempo and maintenance costs because armor vehicles are more expensive to operate and an increased use of airlift to move critical equipment to Iraq this past spring.

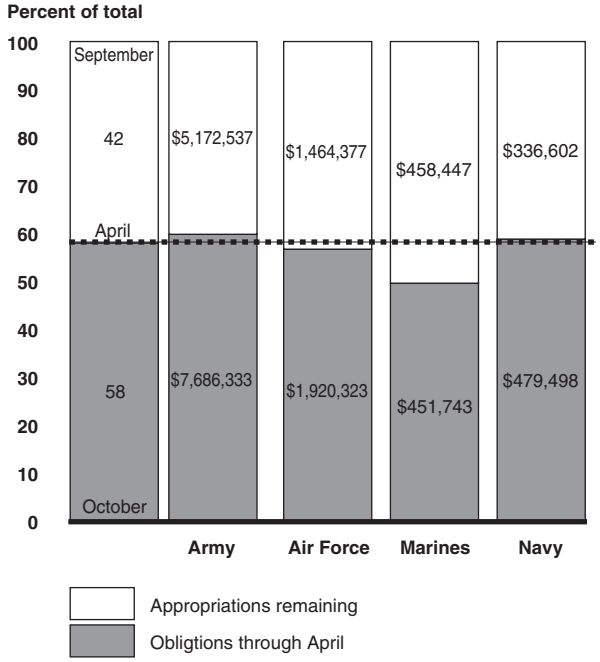
- The Air Force forecasts a shortfall of about $1.5 billion, which includes the costs for increased operating tempo, such as more flying hours than anticipated, higher transportation costs to move Air Force units and equipment, body armor for airmen in combat areas, night vision gear, and operation of surveillance equipment. In addition, the Office of the Under Secretary of Defense (Comptroller) directed the Air Force to fund $116 million for its own support provided under the LOGCAP contract, which would otherwise have been paid by the Army.
- The Navy forecasts a shortfall of $931 million, which includes the costs for higher steaming and flying hours. For example, Navy representatives told us that they had planned for 11 additional steaming days per quarter but are actually at 18 additional days per quarter, which totals $231 million of the shortfall. In addition, there are 4,000 Navy personnel in Iraq and Kuwait that were not planned to deploy, which increases the operational costs, and the transportation costs to move additional Navy and Marine Corps personnel (which were also not expected to deploy) to GWOT operations.
- The Marine Corps forecasts a shortfall of $446 million. This shortfall reflects the cost of having 26,500 Marines in Iraq and the additional deployment of two Marine Expeditionary Units in support of GWOT operations when initially Marine Corps forces were expected to decrease their presence in fiscal year 2004. It also includes the cost of refurbishing equipment that had been in Iraq in fiscal year 2003. Furthermore, the equipment and maintenance costs associated with adding extra armor on vehicles are much higher than anticipated because of the extra wear-and-tear the vehicles are experiencing due to the extra weight. The shortfall does not include an additional $140 million needed for aircraft force protection that is being funded by the Navy.

In addition to the military services, the Congress also provided GWOT operation and maintenance appropriations for the defense agencies, including the Special Operations Command and the Defense Logistics Agency. These agencies are also reflected in the midyear budget review. Our analysis of their collective reported obligations through April 2004, which represents almost 58 percent of the fiscal year, indicates that the defense agencies are also obligating their funds rapidly, with about 66 percent of their appropriated operation and maintenance funds obligated through April 2004.

Funding for GWOT Military Personnel Is Reasonably Close to Forecasts

The military services have been obligating their funds for military personnel at a rate that nearly mirrors the percentage of the fiscal year that has passed. As figure 3 shows, with seven months of the fiscal year gone, the Army, the Navy, and the Air Force have obligated over one-half of their appropriations and the Marine Corps has obligated almost half, including any funds transferred from the Iraqi Freedom Fund. For example, the Army and the Navy have obligated almost 60 and 59 percent, respectively, of their GWOT appropriation.

Figure 3: Reported Obligations of GWOT Military Personnel Funds through April 2004



Source: GAO analysis of DOD data.

Note: Total reported obligations include obligations from both the active and the reserve components. We did not audit the data.

While three of the four services' reported obligations for military personnel are about at the expected level for this point in the fiscal year, the military services' forecasts as of June 2004 predict a surplus in the Army and Air Force accounts and a shortage in the Navy and Marine Corps accounts. Details are as follows.

- The Army forecasts a surplus of $800 million due to less than expected use of reservists in support of Operation Noble Eagle and savings on costs to move soldiers from one home station to another.
- The Air Force forecasts a surplus of $112 million due to the deactivation of reservists.
- The Navy forecasts a shortfall of $61 million resulting from factors including the increase in Family Separation Allowances for personnel in Iraq and Kuwait. The Navy has also activated 1,300 reservists.
- The Marine Corps forecasts a shortfall of $107 million. There are 26,500 Marines in Iraq, including 4,000-5,000 reservists, plus the

deployment of two Marine Expeditionary Units in support of GWOT that were not anticipated when the Marines' budget estimate was developed.

DOD Plans a Variety of Actions to Cover the Military Services' Shortfalls of GWOT Funds

To fund forecasted GWOT shortfalls, the Office of the Under Secretary of Defense (Comptroller) and the military services are planning to take a number of actions. These actions include taking steps to reduce costs, transferring funds from the Iraqi Freedom Fund, transferring funds between appropriations accounts, and deferring planned peacetime activities to use those funds to support GWOT.

These potential shortfalls could require DOD to move funds between or within appropriation accounts. DOD uses "transfer authority" to shift funds between appropriation accounts, for example, between military personnel and operation and maintenance. Transfer authority is granted by the Congress to DOD usually pursuant to specific provisions in authorization or appropriation acts. In the fiscal year 2004 National Defense Appropriation Act, DOD was given general transfer authority to shift $2.1 billion between appropriations accounts, as well as other transfer authorities that are more specific in nature. DOD was also given transfer authority in the fiscal year 2004 Emergency Supplemental Appropriation Act to shift $3 billion of the funds appropriated in that act. In both cases, the Secretary of Defense must determine that this transfer is necessary in the national interest and that it would fund unforeseen and higher priority items than those originally funded, and he must notify the Congress promptly of the transfer. The ability to shift funds within a specific appropriation account, like operation and maintenance, is referred to as "reprogramming." In general, DOD does not need statutory authority to reprogram funds within an account as long as the funds to be spent would be used for the same general purpose of the appropriation and the reprogramming does not violate any other specific statutory requirements or limitations. For example, DOD could reprogram operation and maintenance funds originally appropriated for training to cover increased fuel costs because both uses meet the general purpose of the operation and maintenance account, as long as the shift does not violate any other specific congressional prohibition or limitation.

According to a representative in the Office of the Under Secretary of Defense (Comptroller), DOD has sufficient funds within its overall appropriation to cover forecasted GWOT shortfalls. Therefore, DOD does not plan to ask the Congress for additional funding, but instead will cover the shortfall in its fiscal year 2004 GWOT funding by both transferring and reprogramming normal annual appropriation and GWOT funds. However,

as explained earlier, there are statutory dollar limits on the amount of funds DOD can transfer and, according to a DOD representative, as of June 18, 2004, DOD had exhausted most of its transfer authority. According to this representative, DOD plans to ask the Congress for an additional $1.1 billion in transfer authority, which would give the department sufficient authority to move funds from one service to another and get funds to the operation and maintenance accounts that have the greatest shortfalls. Also, according to most service representatives, they plan to reprogram funds within their appropriations to the extent allowed by law. Finally, DOD plans to transfer the remaining amount in the Iraqi Freedom Fund, which has its own transfer authority, to the Army and Marine Corps operation and maintenance accounts.

Military Services Plan to Cover GWOT Shortfalls

To cover their forecasted GWOT shortfalls, each of the military services has identified a number of steps it plans to take. Some of these steps involve actions they can take internally, such as seeking to reduce costs and revising spending priorities, or reprogramming, within the same appropriation account, while others involve transferring funds between accounts.

The Army, the service with the largest forecasted shortfall in operation and maintenance, is taking a variety of actions to address its forecasted shortfall. Actions include emphasizing the need to control costs, reprogramming funds within and transferring funds across accounts, seeking help from the other military services for bills now being paid by the Army, and deferring what amounts to a total of about $3.4 billion in activities until fiscal year 2005 or beyond, including deferring refurbishment of equipment used in Operation Iraqi Freedom. In a December 2003 message, the Vice Chief of Staff of the Army asked units to control costs and look for alternatives to the LOGCAP contract with the realization that costs were growing rapidly. Army representatives told us that to control costs they have implemented a number of measures, including

- higher level review of LOGCAP tasks over $10 million as well as over other contract actions and equipment and supply purchases,
- strengthened management controls on new work performed under the LOGCAP contract, and
- the review of supply requisitions to identify and cancel duplicate or inactive requisitions after 30 days as well as a management review of

requisitions that have a high-dollar value, involve large quantities, or involve pilferable items.[7]

The Army will also seek to transfer the previously discussed anticipated $800 million surplus that is attributable to GWOT in its military personnel appropriation account and reprogram funds within its military personnel Army and National Guard appropriations to cover the forecasted $650 million shortage for contract guards and garrison support units, and it is waiting for the Congress' approval of the Office of the Secretary of Defense's request to transfer funds from other service and defense agency accounts, as well as the previously discussed transfer of remaining funds in the Iraqi Freedom Fund. The Army has already received almost $1 billion in transfers from the transportation working capital fund that reflect surpluses in that account and anticipates a reduction in transportation rates and usage changes that would produce a $265 million savings. Finally, the Army is seeking to have the other military services pay some bills it is currently paying. These bills include having the Marine Corps pay almost $313 million and the Air Force pay almost $116 million in LOGCAP costs, which is the Army's estimate of the cost of LOGCAP services being provided to those services. In total, the Army has identified $6.8 billion in funding sources for its operation and maintenance shortfall and will defer activities for the remaining $3.4 billion to fiscal year 2005 and beyond.

The Air Force is taking a variety of actions to reduce or defer spending in its active component operation and maintenance account in order to absorb its forecasted GWOT shortfall. Actions include decreasing peacetime flying hours in the fourth quarter of this fiscal year, reducing depot maintenance, deferring facility sustainment and restoration modernization projects, eliminating training events, decreasing contractor logistics support, slowing civilian hiring, and curtailing lower priority requirements such as travel, supplies, and equipment.

The Navy is also taking a variety of actions to cover its forecasted GWOT shortfall. To cover its forecasted operation and maintenance shortfall of $931 million, the Navy, like the Air Force and the Army, plans to reduce or

[7] We have testified on LOGCAP and other contracting issues in Iraq and issued a report on LOGCAP in July 2004. U.S. General Accounting Office, *Contract Management: Contracting for Iraq Reconstruction and for Global Logistics Support*, GAO-04-869T (Washington, D.C., June 15, 2004) and *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, GAO-04-854 (Washington, D.C., July 19, 2004).

defer spending in its operation and maintenance account, by reducing activities involving facility sustainment and restoration modernization projects by $300 million and non-GWOT flying and steaming hours by $226 million. According to Navy representatives, if the fleet does not want to reduce flying and steaming hours, it can defer its depot maintenance. The Navy received $121 million in transfers from the Office of the Secretary of Defense. The Navy will cover the remaining $284 million shortfall in operation and maintenance and the $61 million shortfall in military personnel through the transfer and reprogramming of funds from investment accounts.

The Marine Corps plans to fund both $334 million of its forecasted $446 million operation and maintenance shortfall and its $107 million military personnel shortfall with funds transferred from the Iraqi Freedom Fund and Department of the Navy investment accounts. According to Marine Corps representatives, they also plan to reduce or defer spending in noncritical areas such as facilities improvements or sustainment projects.

Deferring and Reducing Spending Could Increase Fiscal Year 2005 Spending Needs

As discussed earlier, each of the military services expects to take steps to make funds available for GWOT by reducing and deferring planned activities. Actions such as reducing training can have both short- and long-term impacts. In the short term, units train less if flying and steaming hours are reduced. In the long term, for example, Air Force representatives told us that part of the reduction in peacetime flying hours would affect the Air Education and Training Command's training of new pilots, which would slow new pilot production. While some actions, such as reduced training or travel, cannot be restored, actions that involve deferring planned activities can be restored in future fiscal years to the extent funding is available. As discussed earlier, the Army both plans to defer $3.4 billion in activities until 2005 and beyond and expects to receive transfers of funds from other services and defense agency accounts, which would affect the other services' spending plans; the Air Force plans to reduce depot maintenance; the Navy plans to reduce facility repair activities; and the Marine Corps plans to seek the transfer of funds from investment accounts. We believe that the deferral of these activities will add to the requirements that will need to be funded in fiscal year 2005 and potentially later years and so could result in a "bow wave" effect in future fiscal years. Activities that are deferred also run the risk of costing more in future years.

Congressional Efforts to Improve Accountability of GWOT Funds

Recent congressional committee actions have signaled the Congress' intent to require greater accountability regarding the use of GWOT funds. On May 12, 2004, the President submitted a budget amendment for DOD requesting $25 billion for the Iraqi Freedom Fund Contingent Emergency Reserve in fiscal year 2005. The House Committee on Appropriations included provisions in its bill for accountability related to the use of these funds. The committee bill includes numerous reporting requirements, including a new requirement for a comprehensive biannual report to the Congress that provides a detailed and specific accounting of the expenditure of taxpayer funds in Iraq and Afghanistan.[8] In its committee report on the defense appropriations bill, the Senate Committee on Appropriations expressed its disappointment in the responsiveness of DOD in providing reports already required by various laws.[9] The report does not require new reports be provided, but directs DOD to provide meaningful detail to describe the purposes and specific use of funding in all reports submitted to the committee.

We have been reporting on the cost of ongoing military operations for more than a decade. In that reporting, we have analyzed DOD's monthly cost reports detailing the reported obligations of funds in support of the operations. DOD currently prepares a monthly *Consolidated DOD Terrorist Response Cost Report* that contains reported obligations by operation and within each operation and by appropriation account for the military services and defense agencies. Within these accounts, the report provides obligation data in about 50 categories that are defined in chapter 23 of the DOD Financial Management Regulations.[10]

However, we have reported for several years and as recently as May 2004 that large amounts of reported obligations for GWOT are in miscellaneous categories in both the operation and maintenance and the military personnel accounts.[11] For example, in fiscal year 2003, the $43.7 billion in operation and maintenance reported obligations were reported in four

[8] H.R. 4613, 108th Congress, sec. 9012 (2004).

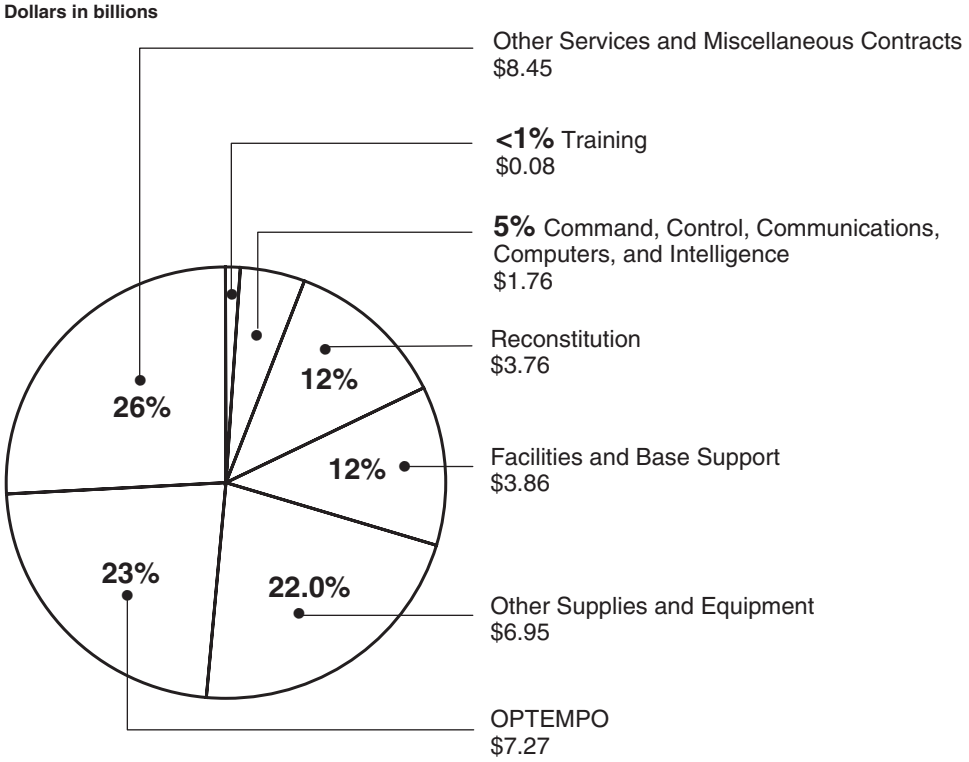
[9] S. Rep. No. 108-204 (2004).

[10] Department of Defense Financial Management Regulations, 7000.14-R, vol. 12, chapter 23, Contingency Operations (Feb. 2001).

[11] U.S. General Accounting Office, *Military Operations: Fiscal Year 2003 Funding and Reported Obligations in Support of the Global War on Terrorism*, GAO-04-668 (Washington, D.C., May 13, 2004).

major categories: civilian personnel, personnel support, operating support, and transportation. As shown in figure 4, the operating support category, which details obligations for such operation-related activities as facilities support, fuel, and spare parts and totaled about $32.1 billion, showed about $15.5 billion in miscellaneous categories. This amount was comprised of about $7 billion for other supplies and equipment and about $8.4 billion for other services and miscellaneous contracts, which totaled about 35 percent of the total reported operation and maintenance obligations.

Figure 4: Global War on Terrorism Operating Support Reported Obligations for Fiscal Year 2003



Source: The Defense Finance and Accounting Service's *Consolidated DOD Terrorist Response Cost Report*, as of September 30, 2003.

Note: We did not audit the data. Percentage total does not add due to rounding.

Similarly, we reported that within the military personnel account, of $15.6 billion in reported obligations, $3.8 billion, or 24 percent, was in the miscellaneous category of other military personnel. We reported that in discussing the results of our analysis with the Office of the Under

Secretary of Defense (Comptroller) and the military services, there was recognition of the large amount of reported obligations captured in miscellaneous categories and that the Comptroller's office is considering how best to provide more specific detail in future cost reports.

Chapter 23 of the Financial Management Regulations is DOD's guidance on contingency operations cost definition and reporting. In our opinion, the categories defined in the guidance provide a uniform framework for capturing obligations, but the miscellaneous categories do not provide the specificity or transparency needed for the Congress and others to understand clearly how funds appropriated for contingency operations are being used, particularly since these categories involve billions of dollars in reported obligations.

In our annual reporting on the cost and funding of ongoing military operations, we have recognized that estimating the costs of ongoing military operations is difficult because operational requirements can differ substantially from what was assumed in developing budget estimates. As a result, the actual funding requirement is often more or less than what was initially estimated, and the military services have sometimes used surpluses to fund activities that were not part of the contingency operation. We have found that in some years funding was insufficient for some services while it was sufficient for others and that within a service it was sufficient for one appropriation account but not for another. For example, in June 1996 we reported that the Army and the Navy reported obligations for operation and maintenance that were in excess of their supplemental funding, while the Air Force and the Marine Corps reported obligations that were less than their supplemental funding.[12] In that year, both the Air Force and the Marine Corps used the excess funding for a variety of otherwise unfunded operational needs. In other years, the Congress rescinded excess funding or reduced subsequent year funding based on an expected carryover of funds.

Conclusions

Largely because of the security situation in Iraq, the military services are forecasting costs as of June 2004 in excess of their supplemental GWOT funding. DOD is taking a variety of actions to cover these shortfalls. It has also asked the Congress to provide a $25 billion contingent reserve for GWOT in fiscal year 2005. To ensure accountability for the use of those

[12] U.S. General Accounting Office, *Contingency Operations: Update on DOD's Fiscal Year 1995 Cost and Funding*, GAO/NSIAD-96-184BR (Washington, D.C.: June 27, 1996).

funds, the Congress is contemplating requiring periodic reports on the use of such funds. Our past work has shown that current cost reporting includes large amounts of funds that have been reported as obligated in miscellaneous categories and so provides little insight on how those funds have been spent. This may result in reduced transparency and accountability to the Congress and the American people. Our work has also discussed the difficulty of accurately budgeting for annual funding needs and the resulting existence of both funding shortfalls and surpluses, which at times have been spent on noncontingency-related activities. This in turn helps highlight the importance of providing useful information to the Congress for its oversight role.

Recommendation for Executive Action

In light of the fact that we have reported for years on the large amounts of reported obligations in the miscellaneous categories of the *Consolidated DOD Terrorist Response Cost Reports*, we recommend that the Secretary of Defense take the following three actions: (1) review recent *Consolidated DOD Terrorist Response Cost Reports* to identify the larger groupings of reported obligations within the "other supplies and equipment," "other services and miscellaneous contracts," and "other military personnel" cost categories; (2) revise Chapter 23 of the Financial Management Regulations to include these groupings as reporting categories so that the amounts classified in the "other" categories are minimized; and (3) direct the military services to begin reporting obligations using these new cost categories as soon as they are identified.

Matter for Congressional Consideration

To better assess the adequacy of previously provided funding, the Congress may wish to expand its reporting requirements for DOD on the use of GWOT funds to include reports at the half year and the end of the third quarter of each fiscal year that include an assessment of the adequacy of funding for GWOT in that fiscal year, including (a) if funding appears to be insufficient, the Secretary of Defense's plan for covering any shortfall and (b) if funding appears to exceed forecasted costs, the procedures that will be followed to ensure that any excess funds are not used for non-GWOT purposes.

Agency Comments

DOD did not provide us comments by the date we requested. However, we discussed our analysis with a representative from DOD's Office of the Under Secretary of Defense (Comptroller) and representatives from each military service's budget office. We also discussed our proposed recommendation and matter for congressional consideration. The Office

of the Under Secretary of Defense representative stated that he agreed with our proposed recommendation and that the department had been discussing ways to provide more detail in the cost report's miscellaneous categories. This representative and the service representatives also stated that they had no objections to the matter for congressional consideration and, in fact, provide information to the Congress whenever it is requested. DOD also provided technical comments and we have incorporated them as appropriate. In particular, the Army clarified that they were not deferring the purchase of ceramic body armor and we agreed to delete references to that issue in the final report. We have also updated the reported obligations to reflect April data.

We are sending copies of this report to other interested congressional committees; the Secretary of Defense; the Under Secretary of Defense (Comptroller); and the Director, Office of Management and Budget. Copies of this report will also be made available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions regarding this report, please call me on (757) 552-8100. Principal contributors to this report were Steve Sternlieb, Ann Borseth, John Buehler, and David Mayfield.

Neal P. Curtin
Director, Defense Capabilities
and Management

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The Honorable Jerry Lewis, Chairman
The Honorable John Murtha
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Scope and Methodology

To assess the adequacy of funding for the Global War on Terrorism (GWOT), we reviewed (1) the President's fiscal year 2004 budget request for supplemental appropriations, (2) applicable laws appropriating funds for GWOT, and (3) Department of Defense (DOD) reports on the obligation of GWOT funds. We obtained budget forecasts from the military services based on their midyear budget review and subsequent updates through June 2004, including key cost factors of GWOT operations. We also discussed these forecasts with service representatives. We compared the latest available obligation reports against total available appropriated funds. We focused our work on the obligation of funds appropriated for operation and maintenance and military personnel because they represented the large majority of funds obligated in fiscal year 2004 through April 2004.

To assess actions planned to address forecasted GWOT funding shortfalls, we reviewed service documents related to the midyear budget review and subsequent updates through June 2004 and discussed with DOD and the military services the actions the services planned to take and their likely impact on current programs. We also reviewed applicable legislation on DOD's authority to transfer funds.

To provide observations on congressional efforts to improve accountability of GWOT funds, we reviewed available material in DOD appropriations and authorization bills for fiscal year 2005, committee press releases, and statements of key leaders to identify proposed actions to improve accountability. We also reviewed our reports related to the cost and funding of ongoing military operations dating back to fiscal year 1994.

We visited the following locations during our review:

- Office of the Under Secretary of Defense (Comptroller), Washington, D.C.
- Department of the Army, Headquarters, Washington, D.C.
- U.S. Army Forces Command and Headquarters, Third Army, Fort McPherson, Georgia.
- Department of the Air Force, Headquarters, Washington, D.C.
- Air Force Central Command, Shaw Air Force Base, South Carolina.
- Department of the Navy, Headquarters, Washington, D.C.
- United States Marine Corps, Headquarters, Washington, D.C.
- First Marine Expeditionary Forces, Headquarters, Camp Pendleton, California.

We performed our work from January through June 2004 in accordance with generally accepted government auditing standards.

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